Mr. Brown's Experience

MR. BROWN'S EXPERIENCE

By Hy. R. Wohlers

1912

GUARANTY TRUST COMPANY
OF NEW YORK
TWENTY-EIGHT NASSAU STREET

FIFTH AVENUE BRANCH
Fifth Avenue and 43rd Street

LONDON OFFICE
33 Lombard Street, E. C.

STANDARD BRANCH
25 Broad St.

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CHAPTER I.

Checking Accounts.

MR. JOHN BROWN, senior member of the firm of Brown & Company, was conversing with a friend at luncheon one day on the subject of bank accounts. When the matter of interest came up, the friend was very much surprised to learn that Mr. Brown had been keeping his account with an institution which allowed him no interest.

Interest on Accounts

"But," said Mr. Brown, "I always thought the first-class banking institutions were loath to pay interest."

"The fact is," answered his friend, "that they are not. The interest allowed is governed more or less by the money market conditions. If the banks are unable for any great length of time to loan out their money at a favorable rate, they of course cannot allow much interest. However, a fixed rate is customarily agreed upon when opening an account."

"Where do you keep your account, may I ask?"

"I am never reluctant to answer that. I keep it at the Guaranty Trust Company. I've kept it there, well, I should say about thirty years."

"That's a pretty good recommendation," remarked Mr. Brown, "to say that you've kept your account with an institution for thirty years. I would be glad to be introduced to that company."

"And I shall be happy to introduce you."

An introduction was accordingly arranged with the Treasurer of the Trust Company, who is in charge of the Banking Department.

Mr. Brown was quoted the ruling rate which was being paid at the time on average daily balances of $1,000 to $5,000 and a higher rate on balances above.

"What is the balance you would be likely to carry?" he was asked.

"About $25,000."

"Is there any of that that you will not need for, say, six months? If there is, I would suggest that you take a Certificate of Deposit."

"What is a Certificate of Deposit?"

Certificate of Deposit

"In this State it is an instrument certifying that the amount appearing on its face has been placed on deposit and is redeemable with or without interest at maturity. In other words, it is the receipt of the Trust Company. On money so deposited on time, no reserve is required by the State laws, except within thirty days of maturity, hence our ability to earn and

thereby pay a better rate on time certificates for six months or longer."

"I believe I'll take a Certificate of Deposit for $15,000.00, as I will not need that amount for several months."

Mr. Brown was given a signature card on which he was asked to furnish the Company with specimens of the authorized signatures of the members of his firm. He had this filled out in due course and returned to the Company, with a cheque for $10,000 to open the checking account, and a cheque for $15,000 for which he was to receive a Certificate of Deposit, payable upon endorsement and presentation at maturity, with interest, as illustrated on page 10.

The Company confirmed by letter the receipt of the initial deposit, advised that the signature card had been filed, that statements of account and vouchers (the name for paid cheques) are sent to depositors at the end of each month, and interest is credited semi-annually in the months of June and December.

$15,000

New York, Jan. 2, 1912

Guaranty Trust Company of New York

has received from Brown & Company the sum of Fifteen thousand # Dollars in current funds, upon which the said Company will allow interest at the annual rate of 3 per cent from this date, and on July 2, 1912 will repay the like amount in current funds, with the interest to the said Brown & Company or their assigns on the return of this Certificate which is assignable only on the Books of the Company

No 999

[SAMPLE]

CASHIER

TREASURER

CHAPTER II.

Household Accounts.

ONE evening Mrs. Brown confessed at home her fear that she would have to pay a bill the second time because she seemed to have lost the receipt. A search was made and, happily, the receipt was found. This presented an opportunity to bring up a subject of importance to every householder.

"I think it would be a good idea for you to carry a draft account with a Trust Company," said Mr. Brown. "By doing so, you can pay your bills by cheques. These cheques must be endorsed by the payee, and such endorsements are equivalent to receipts. If you lose your receipt, you can always produce the cheques (or vouchers) with the endorsement as evidence, and save yourself all concern."

The idea appealed to Mrs. Brown as a first-class one, of course, and she asked, "Where shall I open the account?"

Uptown Branch

"I have just opened one at the Guaranty Trust Company. I understand that their Fifth Avenue Branch is near by, which makes it convenient for uptown customers. I'll call up their office in the morning to tell them that you intend to call at the Branch."

He did so, and in answer to his inquiry, he was informed that the Main Office stood ready to receive deposits during regular business hours for the credit of the Branch depositors. Mr. Brown stated that he wished to deposit a sum of money for the credit of Mrs. Brown at the Branch, and he was told that upon receipt of it the Main Office would notify the Branch immediately so that if the account were interest-bearing, no time would be lost. He was informed, also, that customers of the Branch Office could cash cheques at the Main Office, if they desired to do so. He was requested to have Mrs. Brown furnish specimens of her signature, which was done.

It is needless to say that Mrs. Brown was pleased with the new arrangement.

CHAPTER III.

SAFEGUARDING SECURITIES.

THE busy season over, and with the approach of summer, Mr. Brown contemplated a trip to Europe.

Care and Custody of Securities

As he was a very particular, cautious gentleman, he never allowed anyone but himself to handle his investments. However, he had learned to have faith in the integrity of his Trust Company, and, accordingly, he informed the Trust Department of his contemplated trip and asked if they would take care of his securities for him while he was abroad and attend to the collection of bonds and coupons which were maturing.

"To take temporary care of securities is one of the important functions of our Company," he was told. "We are custodian of many securities owned mostly by people who are traveling or who reside outside of the city of New York."

"What charge do you make?"

"Well, there is no fixed charge. The cost varies according to the nature of the securities. By that I mean that if the securities are stocks, we are obliged to look after their transfer, endorsement in case of sale, dividend orders, and

matters of that sort. But if the securities are coupon bonds we are obliged to clip off the coupons, collect and credit them, and take into consideration the greater amount of space which bonds occupy in our vaults. In either event, the charge we would make you, as one of our customers, would be merely for the labor involved, so that if you will let me know what securities you wish us to handle, we shall be pleased to quote our charge."

Mr. Brown presented a list of his holdings and at the same time asked what charge the Company would make for taking their permanent custody.

"If you wish to relieve yourself for all time of the bother of taking care of your securities, we will do so at a nominal rate."

The rate was satisfactory to Mr. Brown and he informed the Trust Officer that his securities would be sent in the following day.

CHAPTER IV.

MONEY FOR TRAVELERS.

MR. BROWN was asked if there was anything the Company could do for him in connection with his trip, and he answered that he needed some foreign money, whereupon he was introduced to the Foreign Department. He was told of the liability of loss or robbery in carrying money.

Travelers' Cheques

"Would you not care to have Travelers' Cheques or a Letter of Credit?"

"No, I think not. When I have the cash I escape the bother of identifying myself at the foreign banks."

"Let us explain, Mr. Brown, that the Travelers' Cheques issued by us through the American Bankers' Association are universally accepted and require no personal introduction. Your identity is established by a comparison of your signature made at the time of purchase with your countersignature made in the presence of the party cashing the cheque."

Cost

"I am glad to know that. What will it cost me?"

"The charge is one-half of 1% paid when you purchase,—or ten cents on a hundred dollars."

"And how will I know what they are worth in foreign money? Am I apt to be cheated?"

Fixed Value in Foreign Money

"In this respect you are especially safeguarded by buying Travelers' Cheques. They have a fixed value, and you can always see on the face of the Cheque the equivalent payable abroad; for instance, if the cheque calls for $20.00, you will note that it is redeemable in

Great Britain at	£4.1.8
Canada	$20.00
Germany	Marks 83.30
France, Belgium and Switzerland	Francs 102.50
Italy (Gold)	Lire 102.50
Norway, Sweden and Denmark	Kroner 73.39
Aust.-Hungary	Kroner 98.00
Russia	Rubles 38.46
Holland	Florin 49.08

In all other countries, at current rates for foreign exchange.

Letter of Credit

"What advantage is there in taking out a Letter of Credit?"

"There is this advantage, besides that of precaution from loss or theft: that on the money deposited to your credit you receive interest, which almost pays the expense of the Letter. Money carried around in the pocket does not draw interest; if left here it is figured from

the date of the deposit to the date of presentation of the draft against the Letter."

"And how do you figure the cost?"

Cost

"When a draft is made against a Letter of Credit in, say, London, we of course are immediately charged by the foreign Bank there. To cover the cost of the exchange, etc., we charge interest at the rate of 6% per annum for only fifteen days, plus a small commission. Assuming that you had taken a credit for $2,000 and actually used only $1,000, this would figure $2.50 interest plus, say, $2.50 commission, or a total of $5.00. Now, suppose the deposit which you make averages thirty days at the rate of, say, 2½% per annum, the interest thereon will be about $4.17 which, as stated before, almost covers the cost of taking out the Letter. You are practically getting your Letter of Credit free of cost; and if the amount you deposit is greatly in excess of that actually used, the interest you receive is correspondingly increased."

Redemption of unused Cheques

"You are right. Better let me have one thousand dollars in a Letter of Credit, and five hundred in Travelers' Cheques. By the way, how do I redeem the cheques if I have any left when I return?"

"By countersigning them and depositing in your regular bank the same as an ordinary deposit."

CHAPTER V.

London Office.

MR. BROWN'S trip abroad was for both business and pleasure. After transacting some business in London, he intended to visit various places on the Continent. The question of the financial status and responsibilities of some concerns with whom he contemplated negotiations were unknown to him, and in view of the fact that the Guaranty Trust Company has a London office (which fact he noted from the list of correspondents on his Letter of Credit) he concluded to call there for information. He notified the Main Office of his intention to call, and was given a letter of introduction to the Manager of the London Office. At the same time he was told, "You are invited to have all of your mail forwarded to you in care of our London Office."

Some days after his arrival in London he called at the London Office, where he was cordially received by the Manager, who handed him his mail that had been forwarded from America. He secured the information he desired concerning the firms with which he was negotiating, closed the deals in due course, and eventually had the London Office transfer by cable for the

credit of his New York office the amount of pounds sterling he had received.

Grateful for the facilities which had been placed at his disposal, Mr. Brown left the office to go on his pleasure trip, fortified with several additional letters of introduction to various bankers and other concerns on the Continent.

CHAPTER VI.

LOANS.

SOME time after Mr. Brown returned from his European trip, he received a notification concerning his Certificate of Deposit, which he had taken out nearly five months before.

"We wish to notify you," telephoned the Treasurer of the Guaranty Trust Company, "that your Certificate of Deposit will mature in the near future. If you desire a renewal and will advise us prior to the thirtieth day before maturity, we shall be glad to make note of the extension on the face of the certificate. This will enable the deposit to run right along without reserve until within thirty days of the succeeding maturity."

"I cannot agree to an extension," replied Mr. Brown, "for the reason that the fall season is beginning and in my business it means the expenditure and use of more money than I have available. The fact is I am in the habit of borrowing at this time of the year for our fall purchases. I wonder, by the way, if your Company would be disposed to grant my firm some of the accommodation we need to carry us through the fall?"

"We shall be glad to consider your proposition," was the reply. "Let us know how much you will need, and bring us a statement of your firm's assets and liabilities."

Basis of Loans

This was done, and in view of the fact that Mr. Brown's firm had a good business connection with the Company in the past, that they were well rated by the commercial agencies, that they were well spoken of in the trade, and also in view of their promise to maintain a deposit account of at least twenty per cent. of the amount borrowed, the loan Mr. Brown desired was made. Accordingly, his firm's notes were sent in for discount to the Loan Department and their account was credited with the proceeds.

CHAPTER VII.

FOREIGN DEPARTMENT.

BROWN & COMPANY having made their fall purchases, the goods were shipped on account of foreign sales. The terms arranged for the payment of Brown & Company's shipments necessitated the drawing of three kinds of drafts. These drafts were drawn for payment in pounds, francs, or marks, equivalent to American dollars, and had to be presented abroad.

Inasmuch as Brown & Company had borrowed money to pay for the goods, they were anxious to convert the value of these drafts at once.

In order to know the ruling rates, Mr. Brown went at once to the manager of the Foreign Department of the Guaranty Trust Company, to whom he had previously been introduced.

"I have some drafts," said Mr. Brown, "which I would like to sell you."

"What are they?"

Foreign Bills

"Six thousand pounds, sixty days' acceptance, on London. Also one thousand pounds, fifteen days' sight, on London. What rates?"

"4.84 for sixty days, 4.85 for fifteen."

The above meant that Brown & Company had made arrangements with a foreign concern, in the case of the sixty day draft, to send the

goods, draw on them for the amount, and receive payment sixty days after its acceptance and the delivery of the bills of lading. The Guaranty Trust Company would pay $4.84 for each pound, send the draft (with the bill of lading, insurance receipt and other documents attached) to their correspondent in London, who would present it for acceptance and deliver the documents. Such bills are familiarly known as "Commercial Long Bills." This bill was called an "acceptance" bill to distinguish it from a "payment" bill which is used when the bill of lading and other documents are not deliverable until payment of the draft is actually made. In the other case, Brown & Company wished to sell a "documentary Commercial Sight Bill" which is used in cases when documents are attached when the "usance" (the time to run) is not over thirty days. The reason the one could be converted at a lower price than the other is that the longer a banker has to wait for the payment the less he can give.

An illustration of the Commercial Long Bill offered by Brown & Company is given on page 24.

The Guaranty Trust Company, being very large dealers in foreign exchange, were able to quote a close rate, which was acceptable to Brown & Company.

No. A50. FIRST. *£5000*

New York, Nov. 20, 1911.

Sixty days after sight of this First of Exchange (Second Unpaid) Pay to the Order of Guaranty Trust Company of New York Five Thousand Pounds Sterling, value received and charge to the account of

BROWN & COMPANY.

To Messrs. John Jones & Co.
London, England. *500 Bales Cotton via s.s. Olympic.*

"In addition to these bills," said Mr. Brown, "I have some drafts against which the goods were shipped some time ago and have been received by the consignee, with whom I have arranged to draw at sixty days. I shall, therefore, be obliged if you can arrange to let me draw an amount of Clean Bills." **Clean Bills**

Brown & Company were known to the Guaranty Trust Company as one of the best houses in the market, and, therefore, were willingly granted a line against which they could draw their Clean Bills, or bills without documents or other security attached, except the general credit of Brown & Company, such as is illustrated on page 26.

The foreign exchange business having been transacted through the Foreign Department, Brown & Company were now in receipt of funds with which they paid off their obligations in the Loan Department of the same Company. Accounts were "squared" and then Mr. Brown again took out a Certificate of Deposit and, also, made investments from his surplus funds.

No. 941. FIRST. *£500.7.3*

New York, Nov. 20, 1911.

Thirty days after date of this First of Exchange (Second Unpaid) Pay to the Order of Ourselves Five Hundred Pounds Sterling 7/3, value received and charge to the account of

BROWN & COMPANY.

To Messrs. Wm. Meyers & Son,
London, England.

CHAPTER VIII.

Exemption of Tax on Bonds.

IN line with its general policy of keeping its customers posted, the Guaranty Trust Company of New York one day advised Mr. Brown that a new law, with regard to personal taxation, had been enacted by the State of New York at its last legislative session. The text of the new law and its interpretation were given in a pamphlet issued by the Company and a copy of the pamphlet was handed to Mr. Brown. On reading the pamphlet, he found that bonds under the new law can be made exempt from personal taxation by the payment of the mortgage tax fees, and if stamps are attached to the bonds at the rate of ½ to 1%, they are forever exempted from personal taxation.

In order to obviate the payment of a personal tax, which amounted to almost two per cent. every year and which was equivalent to almost one-half of the income on the principal, Mr. Brown readily accepted the Trust Company's suggestion that he permit them, for a slight compensation, to attend to the details of securing the exemption.

CHAPTER IX.

Collateral Loans.

THE summer season was again coming on, but instead of going to Europe Mr. Brown decided to buy some property near the seashore on the Jersey coast. He selected a desirable location and then proceeded to have a house built. The contractors submitted their plans and terms were arranged whereby Mr. Brown was to make one initial payment, and instalments as the work progressed. He had invested his own surplus in bonds, so that he was compelled to look for a loan. He explained to the Guaranty Trust Company that he was building and wanted to know whether or not the Company could let him have temporary accommodation to be secured by his real estate.

"This Company," he was told, "does not loan against real estate situated outside of the Borough of Manhattan, and then only in such cases where we have trust funds for investment in mortgages that comply with the law."

Loan against Bonds

Knowing, then, that it was the policy of his Trust Company not to loan against real estate, Mr. Brown concluded that a very satisfactory way out of the matter was to secure a loan

against some of his bonds. He again called on the Loan Department, who furnished him, as a customer, with the amount of the loan at a fair rate of interest upon his promise to maintain a margin against it of at least twenty per cent. This Mr. Brown was well able to do.

CHAPTER X.

Bond Department.

IN due course, Mr. Brown liquidated his loan, for his business had flourished and he had made considerable money. Part of this he wished to invest and, accordingly, he paid a visit to the Bond Department of the Trust Company, with the request that he be kept posted as to any new and choice investments the Company had to offer.

Bond Offering

Not long afterward, therefore, he received a letter from the Bond Department explaining that in accordance with his suggestion they had placed his name on their mailing list and were at present enclosing a descriptive circular of a railroad equipment bond issue. These bonds could be purchased at an attractive rate, and further particulars could be had on application.

Mr. Brown called on the manager, of whom he wanted to know the nature of equipment bonds.

Equipment Bonds

"This class of security," said the manager, "constitutes an excellent form of investment on account of the great security of principal and interest combined with a good return and a broad market. As its name implies, an equip-

New York Central Lines

Equipment Trust Gold 4½'s of 1912

Dated January 1, 1912. Due \$1,000,000 annually from Jan. 1, 1913 to Jan. 1, 1927, inclusive.

Interest payable January 1 and July 1

Coupon Bonds of \$1,000 denomination with privilege of registration of principal and fully registered bonds of \$1,000 and multiples thereof.

Authorized and Issued \$15,000,000.

Guaranty Trust Company of New York, Trustee

Under the terms of the agreement and lease (and the supplements thereto) covering this equipment trust, the following five companies jointly and severally covenant with the Trustee to pay the principal and semi-annual dividend warrants in gold coin:

The New York Central & Hudson River Railroad Company
The Lake Shore & Michigan Southern Railway Company
The Michigan Central Railroad Company
The Cleveland, Cincinnati, Chicago & St. Louis Ry. Company
Chicago, Indiana & Southern Railroad Company

Facsimile

It is further provided that the amount of certificates to be issued shall not at any time exceed 90% of the actual cost of equipment delivered to and held by the Trustee as security for the payment of the principal of the certificates and the semi-annual dividend warrants appertaining thereto.

The title to this equipment shall remain in the Trustee for the benefit of the certificate holders until all the conditions of the equipment trust are fulfilled, when title shall pass to the companies in interest or as they may designate. During the life of the agreement and lease the railroad companies are obliged to keep this equipment in first class condition and repair, to keep it insured and to make substitution for any equipment that may be destroyed.

For the year ended Dec. 31, 1911, the combined surplus after fixed charges, etc., of the five companies named, amounted to over \$33,000,000. These lines constitute one of the most important railroad systems in the country, serving a prosperous and thickly settled territory.

Prices of Various Maturities upon application

Guaranty Trust Company

of New York

28 Nassau Street, New York

Branches

Fifth Ave. & 43d St., New York — 25 Broad St., New York

33 Lombard St., London, E. C.

[illegible] *The statements and figures presented herein are taken from sources which we believe to be accurate.*

ment bond is one issued to provide funds with which to pay for new rolling stock—cars and locomotives. The issues are variously described as car trust certificates, equipment bonds or equipment notes."

"How long do they run?"

"Equipment trusts are usually created for a period of from ten to fifteen years, provision being made for the retirement of the principal either by annual or semi-annual instalments, or by means of a Sinking Fund. In this way the holders of equipment bonds are fully protected against any possible loss by depreciation of the equipment pledged, as the estimated average depreciation of standard equipment is less than 6% per annum. The amount of bonds issued is usually from 80% to 90% of the cost of the equipment, and with the retirement of the various maturities the margin of security is continually increased."

How Issued

"How are they issued?"

"Equipment obligations are generally issued in one of two ways:

"FIRST—Bonds are issued as a direct obligation of the railroad company, and are secured by a first mortgage upon the equipment, the title to which is vested in a trustee for the benefit of the bondholders.

The entire amount of equipment remains pledged until all of the bonds have been paid, when the equipment becomes the property of the railroad company.

"SECOND—Under the so-called 'Philadelphia Plan' the equipment is purchased by an individual, association or corporation, which leases the equipment to the railroad company for a definite period at a rental equivalent to the interest and principal of the bonds. The contract of lease is then assigned to a trustee which issues its certificates of participation in the lease. These certificates are frequently guaranteed by the railroad company.

Strong Security

"The unique position occupied by equipment obligations is demonstrated by the fact that when a receiver has been appointed for a railroad, it is the custom for the payment of both principal and interest of equipment issues to be maintained under the authority of the court. This ruling is based upon the fact that the value of the property is purely nominal if the Company discontinues operation through lack of equipment. In other words, the equipment is to the railroad company as the tool is to the mechanic."

"Do these bonds fluctuate in value?"

Small Fluctuation

"By buying the shorter maturities the chances of extreme fluctuation in price are minimized. The prices of other maturities have a tendency to move toward par. That is because they sell on a "basis" which means that the discount (or premium as the case may be), the rate of interest, and the length of time the bond has to run, are taken into consideration. For instance, if a 5% bond has three years to run and it sells at 98% (or $980), it means that if you hold the bond until it is paid you will receive as interest during that time $150, as well as $20 in addition to the $980, making the total income $170, which is a net return, or a basis, of about 5¾%. Now let us suppose that the basis changes, as it does with the condition of the money market. If the money market is low, bonds of this character will usually sell on a lower basis by reason of the fact that their yield creates a greater demand. If you should sell on a 5% basis after holding it a year, your net return would be 7%. On the other hand, if sales of the bonds should be made to take advantage of a higher prevailing rate in the money market, the basis would ordinarily be higher. This does not mean, however, that there would be an actual loss if the bonds were sold at, say, a 6% basis, which is $980 for the bond having two years to run, but simply means that your investment has netted

you only 5% interest for the year. The latter is an exceptional case presented merely for illustration. If the bond were held a year and then sold at the same basis (5½%) the price received would be approximately $987 and interest of $50 without the loss of either principal or interest."

Salability

"In case I wanted to sell, could a ready market be found?"

"While equipment obligations are not generally listed on any exchange, the demand for standard issues is constant, and sale can usually be made without difficulty. This Company makes a specialty of this class of security and we are always ready to make bids as well as offerings on standard equipment issues."

Long-time Bonds

Mr. Brown stated that although he might use some short-term equipments as a reserve fund, he desired to invest some of his money in long-term bonds for two reasons: first, because it would save him the trouble of reinvesting and second, because conditions at the time of reinvesting might be unfavorable for securing a high return of interest. He was advised as to the different forms of securities, such as mortgage, debenture, sinking fund, and other bonds of railroads and industrial corporations, as well as how to select them. He was told that business men require bonds that have a prospect of apprecia-

tion in price, a favorable rate of income, and are readily convertible into cash. Individuals dependent upon income from investments are advised to purchase bonds which yield a fair return and whose principal and interest are secure. For reserve funds of firms and corporations, security of principal, ready marketability, and minimum fluctuations are the most desirable features.

What Constitutes a good Investment

"There are five chief points to be considered in the selection of securities for investment," he was told. "They are

"FIRST: Security of principal and interest, or the assurance of receiving the principal when due;

"SECOND: Rate of income, or the net return which is realized on the actual amount of money invested;

"THIRD: Convertibility into cash, with which is included availability as collateral;

"FOURTH: Minimum fluctuation, or stability of market price;

"FIFTH: Prospect of appreciation in value.

"These five qualities are present in different degrees in every investment, and the scientific investor always selects securities in accordance with the qualities upon which he desires to place emphasis. The average investor does not thoroughly realize that a higher degree of one qual-

ity implies a lower degree of other qualities. He may have a general impression that a security which pays unusually well is likely to be somewhat unsafe, but he rarely applies the same reasoning to other characteristics. For example, it is quite common to find a private investor who wishes to make a permanent investment, and has no thought of reselling, buying bonds which possess in a high degree the quality of convertibility. From his point of view, this is pure waste. A high degree of convertibility is only obtained at the sacrifice of some other quality, usually rate of income. If this investor more thoroughly understood this point, he would buy a less active bond of equal safety and higher yield, thus increasing his income at the expense of a quality which he does not need."

Diversify your Investments

"It is wise," the manager added at length, "for an investor to distribute his funds among the securities of several classes of corporations, rather than concentrate on one."

"So then," he was asked, "it would not be well to place all of my funds in, say, well selected bonds of coal companies?"

"No. While such bonds may be of unquestioned merit, it would be much better for you to diversify your investment."

"Why?"

"Because by a proper distribution of your

funds, local or accidental causes will not affect the entire investment. It is also wise that a proper geographical distribution of the investment be made, not confining it to securities of companies located in any one part of the country."

Safety, and Stability of Market Price

"You speak of the qualities of safety, and stability of market price. Is there any difference?"

"They are quite different and are frequently confused. Safety of principal and interest means assurance that the maker of the obligation will pay principal and interest when due. Stability of market price means that the obligation will not suffer in quoted value. Experience has shown that a security may suffer severely in quoted price without any question arising as to the certainty that the principal and interest will be paid when due. Such a fall in market price is frequently brought about by changes in financial and business conditions, which have no special bearing upon the security in question, but affect all securities equally. The only sure way to guard against the possibility of severe shrinkage in quoted value is to buy short term securities of established worth, whose near approach to maturity will keep their price close to par."

When the interview was ended, Mr. Brown

made purchases of certain securities with which he was now acquainted. He was not buying in the dark. He had learned a great deal about the bonds that he finally selected, and incidentally was convinced that the good judgment of the Company could be depended upon, especially since the securities offered were those in which the Company itself had invested after thorough and technical investigation.

CHAPTER XI.

Trustee and Executor.

MR. BROWN had formed a very satisfactory banking connection which consistently took care of his legitimate needs; he had gained a better knowledge of modern trust company facilities than he had had before; and above all, he had found that it was not only convenient but distinctly profitable to have his various financial and fiduciary affairs handled by one institution.

Executorship Therefore it is not surprising that when he died some years later, the Guaranty Trust Company of New York learned that it had been named in his will as the executor of his estate and had also been appointed the trustee of certain property which he wished to have held in trust.

We learn from his lawyer, who drafted his will, that he spoke in the highest terms in praise of his trust company and how he had been posted up to date concerning matters of interest to depositors. He mentioned having received from the Company its pamphlet on the

"New Inheritance Tax Law of the State of New York."

which led him to inquire into the advantages of appointing a corporate trustee.

Now, what were the reasons which influenced Mr. Brown in doing so? Let us quote below the conversation which he had had with the Trust Officer before he made his will.

"Does your Company," he asked, "undertake the entire management of estates?"

Trusteeship

"Yes, sir. The duties of a trustee are performed by us—a corporate trustee—in exactly the same manner as by an individual trustee. Our Company has the distinct advantage, too, of never failing in its requirements on account of absence or death, because we always have an officer available to carry out the instructions in the will."

"I see the advantage. Your charges, I suppose, are rather high."

Fees

"Not at all, sir. They are the same as those allowed to individual trustees, which are regulated by law; on the principal we receive 5% on the first $1,000; 2½% on the next $10,000; and 1% on all amounts over and above $11,000. On the income we receive an annual fee of the same rates on the same scale. For instance, if the principal were $100,000 and the income $6,000, we would receive a fixed fee calculated as follows:

Example

5% on the first $1,000..........	$50
2½% on the next $10,000......	250
1% over and above $11,000.....	890
Total	$1,190

One-half of this amount is customarily charged when the principal is received, and the other half when it is distributed. On the income we would receive an annual fee as follows:

5% on the first $1,000...........	$50
2½% on the next $10,000........	125
Total	$175

It is not necessary to rent safe deposit boxes, as we keep all papers in connection with the estate in our own vaults at no extra expense."

The representative pointed out the strong features of the Trust Company with respect to its recognized character and management, and handed him a newspaper clipping, a fac-simile of which appears on the next page, which states that a person no less eminent than a Judge of the Supreme Court of the United States, the late Chief Justice Fuller, saw the wisdom of appointing a corporate trustee for his estate.

the wealthy Chicago [illegible]

Doubtless, the selection of a trust company as trustee by the late eminent jurist of the United States supreme court will make a profound impression upon all men of wealth and large affairs whose greatest concern is the faithful administration of their estates after death in accordance with their wishes. Exponents of the trust company will certainly derive a peculiar satisfaction from this selection by the late chief justice. It will serve as a powerful argument for our wealthy citizens and render more popular the appointment of trust companies as trustee, administrator, executor or guardian, instead of the hazardous selection of individual trustees alone. The objection that trust companies cannot give the attention to large estates which individual trustees and confidential advisors may afford is overcome by the late chief justice in appointing his legal counselor as associate trustee. Even though this provision had not been made there would be no cause for doubts as to the entire ability of the trust company to bestow that personal care and interest which the trust required. Nevertheless, in many instances trust companies prefer to have the co-operation of the family solicitor and intimate counselor.

A trust company's highest function is to discharge its duties faithfully and safely as trustee whether under the terms of a will or under corporate trusts. Success in this direction will be attended by a greatly increased volume of fiduciary business. The court and criminal records chronicle almost daily the dangers which are unavoidable in appointing individuals as trustees for large estates. The record of trusteeship made by the trust companies of this country, on the other hand, is an inspiring lesson. But most important is the preservation of that high standard of management which has made the trust companies of the United States an example for all the civilized nations of the world.

From The Economist, July 30, 1910.

Duties of Trustee

In accepting the trust, the Guaranty Trust Company of New York was required by the provisions of the trust and by law to be prepared to perform such transactions as the following:

Invest in legal securities;
Collect rents;
Pay taxes, both personal and real;
Collect coupons;
Remit interest to the beneficiaries;
Give accountings to the Court;
Distribute the principal.

Amortization

Detail work was required which is very often unknown or misunderstood by individual trustees. Take, for instance, the matter of amortization, relating to premiums on bonds. In this case the trustee is required to charge all premiums on investments against income and not against principal. The whole of the premium is not charged off at one time but is "amortized," that is, as generally understood, the premium on a bond is gradually charged off and extinguished, by setting aside at each interest period a certain amount of the fixed interest the bonds bear, the amounts set aside being so calculated that at the maturity of the bond they will equal the premium paid. For example, if the bond were a 5% bond, with seven years to

run from January 1, 1912, selling on a 4% basis, it would be amortized as follows:

	Interest on Par Value	Interest earned 4% basis	Amortization	Book Value
Jan. 1, 1912 Cost				$1,060.53
July 1, 1912	$25	$21.21	$3.79	1,056.74
Jan. 1, 1913	25	21.14	3.86	1,052.88
July 1, 1913	25	21.05	3.95	1,048.93
Jan. 1, 1914	25	20.98	4.02	1,044.91
July 1, 1914	25	20.90	4.10	1,040.81
Jan. 1, 1915	25	20.82	4.18	1,036.63
July 1, 1915	25	20.73	4.27	1,032.36
Jan. 1, 1916	25	20.65	4.35	1,028.01
July 1, 1916	25	20.56	4.44	1,023.57
Jan. 1, 1917	25	20.47	4.53	1,019.04
July 1, 1917	25	20.38	4.62	1,014.42
Jan. 1, 1918	25	20.29	4.71	1,009.71
July 1, 1918	25	20.19	4.81	1,004.90
Jan. 1, 1919	25	20.10	4.90	1,000.00
	$350	$289.47	$60.53	

The wisdom of Mr. Brown in selecting a corporate trustee can, therefore, be readily appreciated by all, but inasmuch as this story was merely to treat of Mr. Brown's financial connection, it must necessarily end. There are numerous other ways in which a trust company is of service to the individual and the foregoing is but an example of one man's experience. How it has satisfied thousands of others would, indeed, make an interesting tale. Therefore, we will end with the expression that for a good financial connection there is nothing better than an acquaintance with such an institution as the Guaranty Trust Company of New York.

SUBJECT INDEX

SUBJECT INDEX—Continued

J C & W E POWERS PRINT, N Y